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## Proposed Attorneys for Debtor in Possession

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF CALIFORNIA  
SACRAMENTO DIVISION

In re:

RUSSELL WAYNE LESTER, an individual, dba Dixon Ridge Farms,

## Debtors in Possession.

CASE NO.: 20-24123-E-11

Chapter 11

DCN: FWP-2

Date: September 1, 2020  
Time: 1:30 p.m.  
Courtroom: 33 – Judge Ronald H. Sargis  
501 I Street, 6<sup>th</sup> Floor  
Sacramento, CA

**MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF DEBTOR IN  
POSSESSION'S EMERGENCY MOTION FOR AN ORDER**

**(A) AUTHORIZING INTERIM AND FINAL USE OF CASH COLLATERAL;  
(B) GRANTING REPLACEMENT LIENS; AND (C) SCHEDULING FINAL  
HEARING PURSUANT TO BANKRUPTCY RULE 4001**

Russell Wayne Lester, an individual, dba Dixon Ridge Farms, and the Debtor in Possession ("Dixon Ridge Farms" or "Mr. Lester") in the above-referenced case, hereby submits this Memorandum of Points and Authorities in Support of the Debtor in Possession's Emergency Motion for Order (A) Authorizing Interim Use of Cash Collateral; (B) Granting Replacement Liens; and (C) Scheduling a Final Hearing Pursuant to Bankruptcy Procedure 4001 (the "Motion"). In support of the Motion, Dixon Ridge Farms respectfully represents as follows:

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I.

## **STATEMENT OF FACTS**

## A. Secured Creditor First Northern Bank

4           1. Mr. Lester has done business with First Northern Bank for the past 30 years. In  
5 2018 and 2019, he obtained an agricultural production loan ("Ag Production Loan") and an  
6 asset-based line of credit ("ABL") under which First Northern Bank is owed approximately \$7.8  
7 million. Previously, in 2009, Mr. Lester obtained a real estate term loan in the original principal  
8 amount of \$2,000,000 in 2009 ("RE Loan"). Approximately \$1.4 million remains due on the RE  
9 Loan. Under both the Ag Production Loan Security Agreement and the ABL Security  
10 Agreement, First Northern Bank asserts a blanket security interest in

All Inventory, Chattel Paper, Accounts, Equipment, General Intangibles, Crops, Farm Equipment and Contracts; whether any of the foregoing is owned now or acquired later; whether any of the foregoing is now existing or hereafter raised or grown; all accessions, additions, replacements, and substitutions relating to any of the foregoing (including all entitlements, rights to payment, and payments, in whatever form received, including but not limited to, payments under any governmental agricultural diversion programs, governmental agricultural assistance programs, the Farm Service Agency Wheat Feed Grain Program, and any other such program of the United States Department of Agriculture, or any other general intangibles or programs); all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and other accounts proceeds).

<sup>10</sup> Ag Production Loan Security Agreement at pp.1-2, Omnibus Decl. at ¶ 30.

20 First Northern Bank's security interest in the Ag Production Loan collateral is perfected  
21 by several UCC-1 financing statements, amendments, and continuation statements filed with the  
22 California Secretary of State. Lester Decl. at ¶ 31. Below is a table that generally details First  
23 Northern Bank's collateral, the Debtor in Possession's estimates of value at a going concern and  
24 a possible liquidation value if the Putah Creek Road property and processing equipment is  
25 closed and sold at quick fire-sale prices.

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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	First Northern Bank Collateral Analysis:	First Northern Bank Debt:	Estimated Going Concern Valuation	Forced Liquidation Discount	Estimated Liquidation Valuation	Estimated Going Concern Equity Cushion	Estimated Liquidation Valuation Equity Cushion
		9,200,000					
"Putah Creek Road"	68 acres, buildings and improvements at cost		18,081,582	25%	4,520,395		
Estimated Cash in First Northern Bank			3,445.35	100%	3,445.35		
Receiver Cash Held			58,656	100%	58,656		
Inventory, using Receiver's values			3,759,737	70%	2,631,816		
Equipment			Unknown	Unknown	Unknown		
Accounts Receivable			200,000	100%	200,000		
2020 Harvest Nuts on Trees (lien perfection requires research)			1,000,000	0%	0		
Estimated Insurance Recovery			1,000,000	100%	1,000,000		
<b>Totals:</b>	<b>9,200,000</b>	<b>24,103,420</b>			<b>8,414,313</b>	<b>14,903,420</b>	<b>(785,687)</b>

Omnibus Decl. at ¶ 8.

Due to shifts in the demand for walnuts as well as the impact of the COVID-19 pandemic on the walnut industry, Dixon Ridge Farms was unable to make the payments on the Ag Production Loan and the ABL when they were due. As a result, the full amount of the RE Loan became due, thus approximately \$9.2 million remaining due to First Northern Bank as of the Petition Date. Omnibus Decl. at ¶ 33.

#### B. Secured Creditor Prudential Insurance Company of America

In 2019, Mr. Lester was asked to reduce his borrowing with First Northern Bank, apparently

1 because of a concentration regulatory issue. Lester Decl. at ¶ 4. In 2019, Mr. Lester entered into  
2 two loans with Prudential Insurance Company of America ("Prudential") that totaled  
3 \$14,000,000 of debt. The following parcels of real property were pledged as collateral, and were  
4 valued at the time of the loan roughly at \$25,000 per acre. Omnibus Decl. ¶ 34.

Real Property Subject to Prudential Loans	Prudential Debt	Rough Estimated Price per Acre	Value	Estimated Equity Cushion
	14,000,000			
Carrion (96 acres)		25,000	2,400,000.00	
Gordon Ranch (70 acres)		25,000	1,750,000.00	
McCune (811 acres)		25,000	20,275,000.00	
MacQuiddy (157 acres)		25,000	3,925,000.00	
Oda (200 acres)		25,000	5,000,000.00	
<b>Total</b>		<b>25,000</b>	<b>33,350,000.00</b>	<b>19,350,000</b>

12 Omnibus Decl. at ¶ 13.

13 The Debtor in Possession has listed the Gordon property for sale. Omnibus Decl. at ¶ 27(c).

## 14 II.

### 15 DISCUSSION

16 Bankruptcy Code section 363(c)(2) provides that a debtor in possession may not use, sell,  
17 or lease cash collateral unless "(A) each entity that has an interest in such cash collateral  
18 consents; or (B) the court, after notice and a hearing, authorizes such use, sale, or lease in  
19 accordance with the provisions of this section." 11 U.S.C. §363(c)(2). Federal Rule of  
20 Bankruptcy Procedure 4001(b)(2) permits the Court to authorize the interim use of cash  
21 collateral "as is necessary to avoid immediate and irreparable harm to the estate pending a final  
22 hearing." Fed. R. Bankr. P. 4001(b)(2). Bankruptcy Code section 363(e) provides that a court  
23 may condition a debtor's continued use of property in which another party has an interest by  
24 requiring a debtor to provide adequate protection of the third party's interest in the property.

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**Adequate Protection****A. Prudential**

Prudential is vastly overcollateralized on its real property collateral, as described above.

Though Prudential, in addition to its deeds of trust, has a broad UCC-1 financing statement, including a lien on crops, its primary collateral is its real property collateral.

By approving the use of cash collateral, Prudential's interests in the growing crops will be protected. If the use of cash collateral is denied, the crops will not be harvested.

**B. First Northern Bank is Adequately Protected**

First Northern Bank is significantly overcollateralized by the value of the Putah Creek Property, which Lester values at cost at slightly more than \$18,000,000 at his original cost basis even without recourse to its cash collateral (accounts inventory and equipment). Omnibus Decl. ¶ 27(i).

The Putah Creek Road property is a unique property, and a cost value type valuation is dependent on finding a buyer that seeks the same configuration of buildings and assets. Mr. Lester believes in his valuation method in this circumstance because his cost basis for these metal buildings is drastically lower than the current cost to replace them, given the significant increase in building costs. For example, he valued the freezer buildings (24,000 square feet of freezers, or over half an acre) at the cost of approximately \$105 per square foot, but the current cost based on Debtor in Possession's information to build a freezer building has increased to in excess of \$140 per square foot. Omnibus Decl. ¶ 9.

Even if there is a diminishment in the value of First Northern Bank's cash collateral, it is more than adequately protected by the excess value in the Putah Creek Road Property.

And, even if the excess going concern value int eh Putah Creek Road Property is not sufficient to adequately protect First Northern Bank's cash collateral, Dixon Ridge Farms is asking that the Court grant First Northern Bank a replacement lien in the anticipated \$5.7 million Conservation Easement, an asset upon which First Northern Bank does not currently hold a lien.

Finally, if there is a complete failure of adequate protection, the super-priority

1 administrative claim in Bankruptcy Code 507(b) will provide First Northern Bank the first  
2 position after Prudential on the considerable equity in the properties pledged for the Prudential  
3 loans for any actual decrease in the value of its cash collateral as of the Petition Date.

4 **III. CONCLUSION**

5 WHEREFORE, Dixon Ridge Farms requests that the Court enter an Order (i) approving  
6 the interim use of cash collateral at the hearing; (ii) authorizing the use of cash collateral on terms  
7 prescribed by the Court; (iii) setting a hearing on further uses of cash collateral; and (iv) granting  
8 such other and further relief as the Court deems just and proper under the circumstances.

9 Dated: August 31, 2020

10 FELDERSTEIN FITZGERALD  
WILLOUGHBY PASCUZZI & RIOS LLP

11 By: /s/ Thomas A. Willoughby  
12 THOMAS A. WILLOUGHBY  
Proposed Attorneys for Russell Wayne Lester

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